

# *A Tour of the New Redesigned 2008 Form 990*

## *Part I: Introduction, Heading and Financials*

### Part One of a Four Part Mini Course Produced by IRS Exempt Organizations

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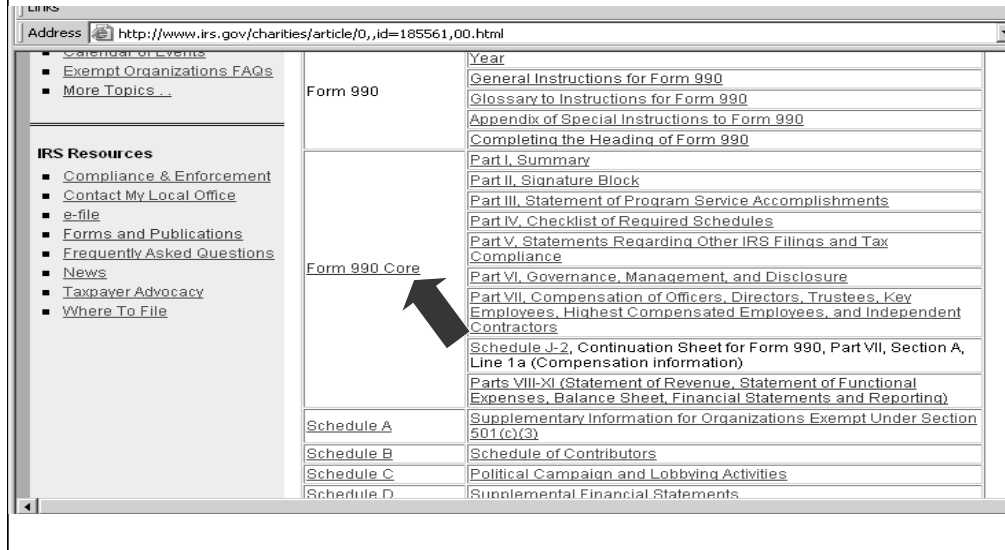
#### **Speaker 1:**

Welcome to part one of our four-part mini course on the newly redesigned 2008 Form 990. Because this is the first major revision to Form 990 since 1979, the IRS is offering this course to help you understand some of the major changes to Form 990.

As most of you know, Form 990 is used by most exempt organizations to satisfy their legal obligation to report their gross income, receipts, and disbursements, and other information to the IRS annually. The IRS needs this information to administer the tax laws and ensure that exempt organizations abide by them. Because the law requires the filer to report full and accurate information or be subject to penalties, it is important that you understand how to complete Form 990 correctly.

This course will help you do just that.

Go to:  
[www.irs.gov/charities/article/0,,id=185561,00.html](http://www.irs.gov/charities/article/0,,id=185561,00.html)  
 to download the 2008 Form 990



## Speaker 2:

Before we start talking about specific parts of Form 990, you may want to have a copy the Form 990 to refer to as we go along.

You can download the core form at the address shown on the slide. Here you'll find a link to the core Form 990 as well as the various schedules and the 990 instructions.

## Basic Instructions

- Complete each line unless instructed to skip it
- If the space provided for an entry is insufficient, continue the entry on Schedule O
- Do not attach anything that is not requested
- Round off monetary amounts to whole dollars
  - Round *down* amounts under 50¢
  - Round *up* amounts of 50¢ or more

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### **Speaker 2:**

First, let's cover some general instructions before we get into the specific parts of the core form we'll be discussing today.

Be sure to complete every line of the core form unless instructed to skip a line.

If you cannot answer a question in the space allotted, you can continue your answer on Schedule O, which consists merely of empty ruled pages where you can complete or supplement your answers. Do not attach anything to the form that is not called for in the instructions.

When entering monetary values, round off cents to whole dollars. Drop amounts under 50 cents, and increase amounts from 50 to 99 cents to the next dollar. For example, \$1.39 becomes \$1, and \$2.50 becomes \$3. When adding two or more amounts to calculate a total amount to enter on the form, include cents when adding the amounts, and round off only the total.

## Basic Instructions

Besides your own financial information and activities, include on your Form 990:

- The revenues, expenses, assets, liabilities, net assets and activities of a *disregarded entity* of which you are the sole member
- The activities of a *joint venture* to the extent of your share of the joint venture

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### **Speaker 1:**

In addition to reporting its own financial information and activities, your organization must also report on its Form 990 all the revenues, expenses, assets, liabilities, and activities of any wholly-owned entity that is not a separate entity for Federal tax purposes – a so-called “disregarded entity.”

Similarly, if your organization participates as a partner or member of a joint venture (including a partnership or LLC), you must report the activities of the joint venture as your organization’s own activities to the extent of your organization’s share of the joint venture.

Appendix F of the Form 990 Instructions includes special instructions for reporting on disregarded entities and joint ventures.

## Basic Instructions

Before completing Form 990:

- Use the instructions to Schedule R to identify any related organizations
- Use the instructions to Part VII to identify persons you will need to report as:
  - Officers
  - Directors
  - Trustees
  - Key employees
  - Highest compensated employees

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### **Speaker 1:**

Before you start to complete your Form 990, you should read the instructions for Schedule R to identify any organizations that are considered related to your organization, for instance parent, subordinate or sister organizations.

You should also read the instructions for Part VII of Form 990 to identify the persons you will have to report as officers, directors, trustees, key employees and highest compensated employees. You will need this information to complete various parts of the form and schedules.

## Design of 2008 Form 990

- 11- part “core” form
  - Completed in full by all filers
- 16 supplementary schedules
  - Complete as determined by answers to Part IV of the core form

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### **Speaker 2:**

So let's talk about how the Form 990 has changed.

It now consists of an 11-part “core” form and 16 supplementary schedules. Every filer must complete the core form in its entirety – all eleven parts. Schedules are completed only as necessary; your answers in Part IV of the core form determine which schedules you must complete.

Because answers to some of the lines in earlier parts of the form depend on information entered in the later parts, you cannot complete Form 990 in strict order from the first page to the last. The instructions recommend a certain order for completing the core form. We will follow that order during our tour of Form 990.

This tour will not stop at every line on the form, but we promise to hit all the major attractions.

In Part 1 of this four-part course will cover the heading to the form and Parts VIII, IX, and X.

# The Heading

|   |  |   |
|---|--|---|
| A For the 2006 calendar year, or tax year beginning _____, 2006, and ending _____, 20   |  |   |
| B Check if applicable:<br><input type="checkbox"/> Address change<br><input type="checkbox"/> Name change<br><input type="checkbox"/> Initial return<br><input type="checkbox"/> Termination<br><input type="checkbox"/> Amended return<br><input type="checkbox"/> Application pending | Please use IRS label or print or type. See Specific Instructions.<br>C Name of organization<br>Doing Business As<br>Number and street (or P.O. box if mail is not delivered to street address) Room/suite<br>City or town, state or country, and ZIP + 4 | D Employer identification number<br>:<br>:  |
|   |  | E Telephone number<br>( )   |
|   |  | G Enter gross receipts \$   |
|   | F Name and address of Principal Officer:   | H(a) Is this a group return for affiliates? <input type="checkbox"/> Yes <input type="checkbox"/> No<br>H(b) Are all affiliates included? <input type="checkbox"/> Yes <input type="checkbox"/> No<br>If "No," attach a list. (See instructions)<br>H(c) Group Exemption Number ▶ |
| I Tax-exempt status: <input type="checkbox"/> 501(c) ( ) (Insert no.) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527   |  |   |
| J Website: ▶  |  |   |
| K Type of organization: <input type="checkbox"/> Corporation <input type="checkbox"/> trust <input type="checkbox"/> association <input type="checkbox"/> Other ▶   |  | L Year of Formation:      M State of legal domicile:  |

## Speaker 1

Let's start our tour of Form 990 with the heading on page 1. This is where you enter basic information about your organization.

You will need to complete items A through M.

# The Heading

- Item A: enter the beginning and ending dates of your organization's tax year if not a calendar year
- Item B: check any box that applies
- Item C: enter the organizations legal name, address and any other name the organization uses to do business.
- Item D: enter the organization's EIN
- Item E: enter the organization's phone number
- Item F: enter the name and address of a principal officer
- Item G: enter your organization's gross receipts after you complete Part VIII

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## Speaker 2

Be sure to out Item A with the beginning and ending dates of your tax year if they differ from the calendar year. An organization that has a fiscal year instead of a calendar year should use 2008 Form 990 to report its fiscal year that starts in 2008 and ends in 2009.

Also, check any of the boxes in Item B that apply to this return. For instance, check the box for "Application pending" if the organization either has not yet filed an application Form 1023 or Form 1024 with the IRS or has filed one and is awaiting a response.

In Item C, enter the organization's legal name. If the organization does business under a different name, enter that name on the next line.

If the organization receives its mail in care of a third party – such as an accountant or an attorney – enter "c/o" (care of) followed by that third party's name and address on the address lines. If there is a change of address after the return is filed, use Form 8822 to inform the IRS of the new address.

In Item D, enter the organization's employer identification number (EIN).

In Item E, enter the telephone number of the organization that members of the public and government personnel may use during normal business hours to obtain information about the organization's finances and activities.

In Item F, provide the name and address of a principal officer, that is, a person who has ultimate responsibility for implementing the decisions of the governing body or for supervising the management, administration, or operation of the organization. If that officer prefers to be contacted at the organization's address listed in item C, enter "same as C above."

Before you can enter your gross receipts in Item G, you need to complete Part VIII. Therefore, you'll have to come back to this item later.



# The Heading

- Item H (a): answer even if your organization is not included in a group exemption
- Item I: select your organization's tax-exempt status
- Item J: enter your organization's website URL, if applicable
- Item K: check the box corresponding to the legal form or status of the organization
- Item L: enter year of formation
- Item M: enter the name of the state in which the organization is domiciled or, in the case of a trust, the name of the state whose law governs its provisions

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## ***Speaker 1***

Answer Item H(a) – “Is this a group return for affiliates?” – even if your organization is not included in a group exemption. See Appendix E of the Special Instructions to Form 990 if you have questions about group exemptions and group returns.

In Item I [eye], check the box corresponding to the organization's tax-exempt status. If the organization is exempt under section 501(c), enter the number corresponding to the exact subsection of 501(c) under which the organization is exempt. For example, if the organization is exempt under section 501(c)(3), enter “3” between the parentheses.

If the organization maintains a website, enter its URL in Item J. Otherwise, enter “N/A” (not applicable).

In Item K, check the box corresponding to the legal form or status of the organization.

In Item L, enter the year of formation, for example, the year of incorporation or the year the declaration of trust is dated.

In Item M, enter the name of the state in which the organization is domiciled or, in the case of a trust, the name of the state whose law governs its provisions. If the organization was formed outside the United States, enter the name of the appropriate country.

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**Part VIII Statement of Revenue**

**Conducting the business of the organization**

1a Federated campaigns . . . . . 1a

b Membership dues . . . . . 1b

c Fundraising events . . . . . 1c

d Related organizations . . . . . 1d

e Government grants (contributions) . . . . . 1e

f All other contributions, gifts, grants, and similar amounts not included above . . . . . 1f

g Noncash . . . . . 1g

**Total (lines 1a-1f)** . . . . . 1g

**Business Code** . . . . .

**Program Service Revenue**

2a . . . . . 2a

b . . . . . 2b

c . . . . . 2c

d . . . . . 2d

e . . . . . 2e

f All other program service revenue . . . . . 2f

**Total** . . . . . 2g

**Other Revenue**

3 Investment income (including dividends, interest, and other similar amounts) . . . . . 3

4 Income from investment of temporary bond proceeds . . . . . 4

5 Royalties . . . . . 5

6a Gross rents . . . . . 6a

b Less: rental expenses . . . . . 6b

c Rental income or (loss) . . . . . 6c

7a Gross sales from sales of assets other than inventory . . . . . 7a

b Less: cost or other basis and sales expenses . . . . . 7b

c Gain or (loss) . . . . . 7c

d Net gain or (loss) . . . . . 7d

8a Gross income from fundraising events (not including 1c) . . . . . 8a

b Less: direct expenses . . . . . 8b

c Net income or (loss) from fundraising events . . . . . 8c

9a Gross income from gaming activities (See Part IV, line 14.) . . . . . 9a

b Less: direct expenses . . . . . 9b

c Net income or (loss) from gaming activities . . . . . 9c

10a Gross sales of inventory, less returns and allowances . . . . . 10a

b Less: cost of goods sold . . . . . 10b

c Net income or (loss) from sales of inventory . . . . . 10c

**Unrelated Business Revenue** . . . . .

11a . . . . . 11a

b . . . . . 11b

c . . . . . 11c

d All other revenue . . . . . 11d

**Total** . . . . . 11e

**Total Revenue.** Add lines 1g, 2g, 3, 4, 5, 6c, 7d, 8c, 9c, 10c, and 11e . . . . . 12

|     | 12<br>Total Revenue | 13<br>Related or Unrelated Business Revenue | 14<br>Unrelated Business Revenue | 15<br>Revenue Excluded from 13, 14, 15, or 16 |
|-----|---------------------|---|----------------------------------|---|
| 1g  |                     |   |                                  |   |
| 2g  |                     |   |                                  |   |
| 3   |                     |   |                                  |   |
| 4   |                     |   |                                  |   |
| 5   |                     |   |                                  |   |
| 6a  |                     |   |                                  |   |
| 6b  |                     |   |                                  |   |
| 6c  |                     |   |                                  |   |
| 7a  |                     |   |                                  |   |
| 7b  |                     |   |                                  |   |
| 7c  |                     |   |                                  |   |
| 7d  |                     |   |                                  |   |
| 8a  |                     |   |                                  |   |
| 8b  |                     |   |                                  |   |
| 8c  |                     |   |                                  |   |
| 9a  |                     |   |                                  |   |
| 9b  |                     |   |                                  |   |
| 9c  |                     |   |                                  |   |
| 10a |                     |   |                                  |   |
| 10b |                     |   |                                  |   |
| 10c |                     |   |                                  |   |
| 11a |                     |   |                                  |   |
| 11b |                     |   |                                  |   |
| 11c |                     |   |                                  |   |
| 11d |                     |   |                                  |   |
| 11e |                     |   |                                  |   |

Form 990 (2010)

**Speaker 2:**

OK. That pretty much covers the heading; now let's take a look at Part VIII, Statement of Revenue. This part is divided into four columns, (A) through (D).

|    | (A)<br>Total Revenue | (B)<br>Related or<br>Exempt<br>Function<br>Revenue | (C)<br>Unrelated<br>Business<br>Revenue | (D)<br>Revenue<br>Excluded from<br>Tax under IRC<br>512, 513, or 514 |
|----|----------------------|--|---|--|
| —  |                      |  |   |  |
| —  |                      |  |   |  |
| —  |                      |  |   |  |
| —  |                      |  |   |  |
| —  |                      |  |   |  |
| —  |                      |  |   |  |
| ▶  |                      |  |   |  |
| da |                      |  |   |  |
|    |                      |  |   |  |
|    |                      |  |   |  |

**Speaker 1:**

In Column (A), you enter total revenue for the particular line, and in Columns (B) through (D), you apportion that revenue among three categories:

- Related or exempt function revenue (Column (B))
- Unrelated business revenue (Column (C)), and
- Revenue excluded from tax under section 512, 513, or 514 (Column (D)).

A political organization exempt under section 527 needs to fill out only Column (A). All other filers are expected to fill out all four columns as appropriate.

## Column (B)

### Related or Exempt Function Revenue

#### Report in Column (B):

- Revenue from activities that are substantially related to the organization's exempt purposes
- Revenue excludable from gross income
  - For example, interest on state and local bonds excludable by Code section 103
- *But not* revenue excludable from unrelated business income by reason of Code sections 512-514

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#### **Speaker 2**

In Column (B), *Related or Exempt Function Revenue*, report revenue from activities that are substantially related to the organization's exempt purpose as well as any revenue that is excludable from gross income other than revenue excludable from unrelated business income by reason of Code section 512, 513, or 514. For instance, interest on state and local bonds excluded from gross income under Code section 103 would be reported in Column (B).

## Column (C) Unrelated Business Revenue

Report in Column (C) unrelated business revenue that is taxable as unrelated business taxable income under Code section 512

- *Unrelated business revenue* is gross income from an unrelated trade or business
- *Unrelated trade or business* is any trade or business, the conduct of which is not substantially related to the exercise or performance of an exempt purpose or function

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### **Speaker 1**

In Column (C), *Unrelated Business Revenue*, report revenue from an unrelated trade or business that is taxable as unrelated business taxable income under Code section 512. Unrelated business revenue is gross income from an unrelated trade or business. An unrelated trade or business is defined in Code section 513 as any trade or business, the conduct of which is not substantially related to the exercise or performance of an exempt purpose or function.

## Column (D) Revenue Excluded from Tax under IRC 512, 513, or 514

- Report in column (D) –
  - Gross income from an unrelated trade or business that is excluded from unrelated business taxable income under sections 512 and 514
  - Revenue from activities that are excluded from the definition of unrelated trade or business under section 513
- See IRS Pub. 598, *Tax on Unrelated Business Income of Exempt Organizations*

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### Speaker 2

In Column (D), report revenue that is excludable from unrelated business revenue. This includes gross income from an unrelated trade or business that is excluded from unrelated business taxable income under Code sections 512 or 514 as well as revenue from activities that are excluded from the definition of unrelated trade or business under Code section 513.

For information about income from an unrelated trade or business, see IRS Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*.

Now let's look at the various lines in Part VIII. We'll start with *Line 1, Contributions, gifts, grants and other similar amounts*.

|   |   |          |  |
|---|---|----------|--|
| Contributions, gifts, grants<br>and other similar amounts | 1a Federated campaigns . . . .  | 1a _____ |  |
|   | b Membership dues . . . . .   | 1b _____ |  |
|   | c Fundraising events . . . . .  | 1c _____ |  |
|   | d Related organizations . . . .   | 1d _____ |  |
|   | e Government grants (contributions)   | 1e _____ |  |
|   | f All other contributions, gifts, grants, and<br>similar amounts not included above . . | 1f _____ |  |
|   | g Noncash \$ _____  |          |  |
|   | h Total (lines 1a-1f). . . . .  | ▶        |  |

### Line 1: Contributions, gifts, grants, etc.

- Report gross amounts contributed, *not* net amounts received after deducting expenses
- Report both cash amounts and the value of non-cash contributions on lines 1a-1f
  - Value non-cash contributions on the date of the contribution
- Total the value of all non-cash contributions reported on lines 1a-1f; enter the sum on line 1g

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### Speaker 1

On lines 1a through 1f, report cash and non-cash amounts received as voluntary contributions, gifts, or grants, whether or not such contributions qualify as charitable contributions under Code section 170. Voluntary contributions include any part of a payment for which the donor does not receive full fair market value from the donee organization. If fundraisers are used to solicit and collect contributions, report the full amount collected in the organization's name, not the net amount after deducting fundraising expenses. You will report the expenses of raising contributions in Part IX.

If the organization receives a noncash contribution, report the item's fair market value on the day it was donated on the appropriate line, 1a through 1f. Noncash contributions are anything other than cash, checks, money orders, credit card charges, wire transfers, or other transfers and deposits to a cash account of the organization.

On line 1g, enter the total amount of all noncash contributions reported on lines 1a through 1f. Then total the amounts reported on lines 1a through 1f (but not line 1g), and enter that total on line 1h, Column (A). Do not apportion contributions, gifts, and grants among Columns (B), (C), and (D).

## Federated Campaigns Line 1a

Report on line 1a contributions received through a solicitation campaign conducted by a federated fundraising agency

Typically, the agency allocates the net proceeds to each participating organization on the basis of donor designations and other factors

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### **Speaker 2**

Now let's look at lines 1a through 1g separately. We'll start with Line 1a, Federated Campaigns.

On line 1a, enter the amount of contributions received through a solicitation campaign conducted by a federated fundraising agency such as a United Way organization.

Such an agency typically conducts a fundraising campaign in a particular locale and allocates a portion of the net proceeds to each participating organization on the basis of donor designations and other factors.



## Membership Dues Contribution (Line 1b) or Program Service Revenue (Line 2)?

Line 1b: Dues that support the organization:

- Dues for which the member gets something of only insubstantial value (or nothing at all) in return
- Dues in excess of the value of goods and services the organization makes available to the member
- Line 2: Dues that compare reasonably with the value of the goods or services the organization makes available to the member

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### Speaker 2

Let's move on to *line 1b, Membership dues*.

On line 1b, enter dues a member pays primarily to support the organization rather than to receive goods or services in return. On the other hand, report membership dues that bear a reasonable relationship to the value of goods and services the organization provides to the member in return for those dues as program service revenue on line 2, not on line 1b. If membership dues exceed the fair market value of goods and services given in return, report the amount in excess of fair market value as a contribution on line 1b and the amount equal to fair market value on line 2.

In determining whether any portion of membership dues is a payment for goods and services, ignore insubstantial benefits such as free or discounted admission to facilities or events, or priority access to goods and services. For example, if the only "privilege" of membership to a local symphony orchestra is the chance to purchase concert subscriptions before they go on sale to the public, the membership dues are considered contributions to be reported on line 1b.

*Next is line 1c.* On line 1c, enter the amount of contributions received at fundraising events. We'll discuss fundraising events – and how to determine whether an amount goes on line 1c – when we look at line 8.

## Related Organizations

### Line 1d

- Report on line 1d contributions from *related organizations* that enable the filing organization to provide services to the public
- “Related organizations”:
  - A parent, subordinate or sister organization of the filing organization
  - A section 509(a)(3) supporting organization of the filing organization
  - A section 509(f)(3) supported organization of the filing organization

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### **Speaker 1**

Remember earlier, we recommended that you identify any related organizations?

Well, *line 1d, Related Organizations*, is a line where you'll need that information. On line 1d, report amounts contributed by related organizations. Include only contributions made to enable the donee organization to provide a service to the general public. Do not include payments for services, facilities, or products that primarily benefit the donor organization.

A related organization includes a parent, subordinate or sister organization of the filing organization as well as a section 509(a)(3) supporting organization or 509(f)(3) supported organization of the filing organization.

## Government Grants Contribution (Line 1e) or Program Service Revenue (Line 2)?

- Line 1e: Grants for the purpose of providing a service to the public
- Line 2: Grants for the purpose of providing a service that directly benefits the grantor governmental unit

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### Speaker 1

The next line is *line 1e. Government Grants*. On this line, report grants from local, state, or federal government sources or foreign governments if the primary purpose of the grant is to enable the organization to provide a service that directly benefits the public. For example, a nursing home would enter on line 1e the payments it receives from a governmental unit to provide health care to the home's residents.

Do not report on line 1e grants that serve the direct and immediate needs of the grantor governmental unit. Such income should be reported as program service revenue on line 2. For example, a payment by a government agency to an exempt medical clinic to provide vaccinations to indigents is considered a contribution and reported on line 1e, whereas a payment to provide vaccinations to employees of the government agency is program service revenue and reported on line 2.

Line 1f, *Other Contributions*, is where you report all other contributions not reported already on lines 1a through 1e, including contributions from donor-advised funds.

Finally, on line 1g, *Noncash*, remember to report the total value of all noncash contributions included in lines 1a-1f.

| Program Service Revenue |                      | Business Code |
|-------------------------|----------------------|---------------|
| 2a                      | .....                |               |
| b                       | .....                |               |
| c                       | .....                |               |
| d                       | .....                |               |
| e                       | .....                |               |
| f                       | .....                |               |
| g                       | Total . . . . . ▶ \$ |               |

## Line 2: Program Service Revenue

- Lines 2a-2e: Individually list the five largest sources of public service revenue and report the revenue received from each in Columns (A)-(D)
- Line 2f: Report program service revenue from all other program services combined in Columns (A)-(D)

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### **Speaker 2:**

Now let's look at Line 2, Program Service Revenue.

On lines 2a-2e, list the five largest sources of program service revenue and report the revenue received from each in Columns (A) thru (D).

On line 2f, enter the total program service revenue from all program services not listed in lines 2a-2e.

# Program Service

Program service: a major, usually ongoing, activity that accomplishes an exempt (e.g., charitable, religious, educational) purpose

- A hospital may provide charity care
- A disaster relief organization may make grants or provide assistance to victims of a natural disaster

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***Speaker 2:***

A program service is a major, usually ongoing, activity that furthers the organization's exempt purposes.

For example, a hospital might have a program service of providing charity care under its charity care policy. A disaster relief organization might have a program service of making grants or providing assistance to victims of a natural disaster.

# Program Service Revenue

Examples of program service revenue include:

- Tuition a school charges for providing instruction
- Interest earned by a credit union from loans to members
- Premiums fraternal beneficiary societies collect
- Income from program-related investments
  - An investment made to accomplish an exempt purpose rather than to produce income (for example, student loans, low-interest loans to charity)
- Membership dues that compare reasonably with the value of benefits provided in return
  - E.g., dues received by labor organizations, business leagues, social clubs, and fraternal organizations

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## **Speaker 1:**

To help clarify when income is considered program service revenue, here are a few examples.

Schools exist to provide instruction. Thus, a school's course of instruction is a program service because it furthers the school's purpose, and the tuition it charges to provide that course of instruction is program service revenue.

Another example is a credit union. A credit union typically makes loans to its members. Its loan program is a program service, and the interest it earns on those loans is program service revenue.

Fraternal beneficiary societies are another example. They typically provide insurance benefits to their members. Providing insurance to members is a program service, and the premiums the society collects on those policies is program service revenue.

Program service revenue also includes income from a program-related investment – an investment made primarily to accomplish an exempt purpose rather than to produce income. An example of a program-related investment is a student loan, or a low-interest loan to a charity, an indigent, or the victim of a disaster. The interest earned on such loans is reported as program service revenue.

As we mentioned in our explanation of line 1b, if a membership organization provides benefits to its members, and the value of those benefits is comparable to the amount the members pay in dues, those dues are reported on line 2 as program service revenue.

Labor organizations exempt under section 501(c)(5), business leagues exempt under section 501(c)(6), and social clubs exempt under section 501(c)(7) typically provide benefits whose value compares reasonably with the dues they receive.

For each type of program service revenue you list on lines 2a-2e, you must also enter a business code from the list of *Codes for Unrelated Business Activity* found in the 2008 Instructions to Form 990-T, *Exempt Organization Business Income Tax Return*.

Now let's skip to line 6.

## Rental Income Gross Rents (Line 6a) or Program Service Revenue (Line 2)?

- Line 6a: Gross Rents
  - Rent from investment property
    - Allocate rent between “Real” and “Personal” Property
- Line 2: Program Service Revenue
  - Rent from exempt purpose activity (e.g., rents from low-income housing)
  - Rent from an affiliated exempt organization

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### Speaker 1

On line 6a, *Gross Rents*, enter the amount of rental income received from investment property. Allocate rental income and expenses between the columns for real property and personal property as appropriate. Do not report on line 6a rental income that is related to an exempt function; report such income on line 2 instead.

For example, an organization whose exempt purpose is to provide housing to low income persons would report its income from the rental of low-income housing as a program service on line 2. Also report rental income received from an affiliated exempt organization on line 2. Rental income received from an unaffiliated exempt organization is generally reportable on line 6a.

However, if the organization rents space to an unaffiliated exempt organization at less than fair market value for the purpose of helping the tenant exercise its exempt function, that rent is considered program service revenue that is reported on line 2.

Now, let's look at line 8.

# Fundraising Events

- Events conducted for the primary purpose of raising funds
  - *But not* income-producing events conducted for the primary purpose of furthering an exempt purpose, i.e., program services
- Examples of fundraising events:
  - Charity balls, bazaars, and banquets
  - Door-to-door sales of merchandise
  - Concerts, carnivals, and sporting events
  - Auctions

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## **Speaker 2**

Use line 8a, *Gross Income from Fundraising Events*, to report income from fundraising events. Fundraising events are events conducted for the primary purpose of raising funds.

An event that is conducted for the primary purpose of furthering the organization's exempt purposes is not considered a fundraising event, even if it raises money for the organization. Instead, it is considered a program service, and revenue from the event is entered on line 2.

*For example*, a folk music festival conducted by an organization formed to promote and preserve folk music is not considered a fundraising event because the festival directly furthers the organization's exempt purposes. Instead, the festival is considered a program service, and income from ticket sales to the festival is reported as program service revenue on line 2.

Typical fundraising events include:

Charity balls, bazaars, and banquets

Door-to-door sales of merchandise

Concerts

Carnivals

Sporting events

Auctions



## Fundraising Event Revenue

### Gross Income (Line 8a) or Contribution (Line 1c)?

- Line 8a: Gross income from fundraising events
  - Payments to gain admission to, or receive privileges or benefits in connection with, a fundraising event
- Line 1c: Contributions from fundraising events
  - Part of payment *in excess of* the value of admission to, or the privileges or benefits received in connection with, a fundraising event
  - Payments for which the payee receives something of only nominal value (or nothing) in return

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#### **Speaker 2**

Events such as these commonly raise funds in two ways. One is from the sale of admissions or other privileges or benefits connected with the event. The other is through the use of the event as an occasion for soliciting contributions whether or not accompanied by the sale of admissions or other privileges or benefits.

Payments made to gain admission to a fundraising event or to receive privileges or benefits in connection with a fundraising event are presumed to be gross income from fundraising events that should be reported on line 8a.

However, if a portion of the payment exceeds the value of admission to the event or the value of any privileges or benefits received in connection with the event, and the excess portion was intended as a gift, that portion is considered a contribution and should be reported on line 1c.

## Example

### Fundraising Income vs. Contribution

- Fundraising concert to benefit M Museum, featuring the S Symphony Orchestra
  - Price of a ticket to the M's fundraising concert: \$30
  - Usual price of a ticket to an S Symphony concert: \$10
- M should allocate revenue from the sale of a ticket to its fundraising concert as follows:
  - Line 1c (contribution): \$20
  - Line 8a (income from fundraising events): \$10

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#### **Speaker 1**

For example, M, an art museum, sponsors a concert by the S Symphony Orchestra for the purpose of raising funds for its exhibitions. M sells tickets to the concert at \$10 a seat, a price that approximates the amount S charges for admission to its concert performances.

Since the payments M receives from the concert approximates the established admission charge for similar concerts, they are not contributions but fundraising income that is reported on line 8a.

But say that M wants to use the concert as an occasion to solicit gifts and, consequently, sets admission at \$30 a seat. Advertising and tickets for the event indicate that the established admission charge for comparable performances is \$10. Under these circumstances, \$20 of each \$30 ticket is considered a contribution and reported on line 1c, and the remaining \$10 is reported on line 8a. [from Rev. Rul. 67-246]

#### **Speaker 2**

If, in return for a payment made at a fundraising event, the payor is offered nothing in return – or is offered something of only nominal value, such as a key chain bearing the organization's logo – the entire payment is considered a contribution and reported on line 1c.

Other amounts reported as contributions on line 1c (and not as fundraising income on line 8a) include proceeds from sweepstakes, lotteries, or raffles in which the names of contributors are entered in a drawing for prizes or in which the prizes have only nominal value.

## Example Fundraising Expenses

- In return for a donation of \$40, ABC Charity gives the donor a copy of The Book.
  - The Book retails for \$16
  - ABC Charity acquired copies of The Book at \$8/copy
- ABC Charity reports each \$40 donation:
  - Line 1c (contribution): \$24 (i.e., \$40 minus \$16)
  - Line 8a (income from fundraising): \$16
  - Line 8b (direct expense of producing income): \$8

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### Speaker 2

On line 8b, report the expenses that relate directly to the production of the gross income reported on line 8a.

For example, as part of a fundraising event, ABC Charity sends a book to anyone who contributes at least \$40. The retail value of the book is \$16, and the wholesale cost of the book is \$8. A \$40 contribution would be reported as follows:

\$24 (the amount that the contribution exceeds the value of the book) is reported as a contribution on line 1c

\$16 (the amount that corresponds to the value of the book) is reported as gross income from fundraising events on line 8a

\$8 (the expense of the book) is reported as a direct expense on line 8b.

## Indirect Fundraising Expenses

Report indirect fundraising expenses (such as advertising for a fundraising event) in Part IX, *Statement of Functional Expenses*, column D; not on line 8b

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### **Speaker 1**

You'll report *indirect* fundraising expenses (such as advertising for a fundraising event) on the appropriate line in Part IX – *Statement of Functional Expenses*, column D, and not on line 8b.

Once you complete Part VIII, you'll be able to go back to the heading and enter your gross receipts in "G."

The instructions to Form 990 will tell you which lines of Part VIII to add to compute gross receipts. Now let's turn to Part IX, *Statement of Functional Expenses* on page 10.

# Part IX

## Statement of Functional Expenses

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### Part IX Statement of Functional Expenses

501(c)(3) and (4) organizations must complete all columns.

All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D).

| Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII. | (A)<br>Total expenses | (B)<br>Program service expenses | (C)<br>Management and general expenses | (D)<br>Fundraising expenses |
|--|-----------------------|---------------------------------|--|-----------------------------|
|--|-----------------------|---------------------------------|--|-----------------------------|

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### Speaker 2

Part IX is where you report all expenses *except* those expenses you already reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII, *Statement of Revenue*. Part IX is called a statement of *functional* expenses because section 501(c)(3) and (c)(4) organizations are required to allocate their expenses into three functional categories: program service expenses in Column (B), management and general expenses in Column (C), and fundraising expenses in Column (D). Filers that are not 501(c)(3) or (c)(4) organizations may complete those columns if they wish, but need report only total expenses for each line in Column (A).

In completing Part IX, use the organization's normal accounting method. If the normal accounting method does not allocate expenses to functional categories, use any reasonable method of allocation, but be sure the method you use is the one you indicate in Part XI and is documented in your records.

## Column (B) Program Service Expenses

In Column (B), report expenses of –

- Activities that further exempt purposes
- Lobbying that is directly related to an exempt purpose
- Unrelated trade or business activities

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### ***Speaker 1***

In Column (B), enter program service expenses. Again, *program services* are activities that further the organization's exempt purposes. Include lobbying expenses in Column (B) if the lobbying is directly related to your exempt purposes.

The expense of lobbying that is not directly related to your exempt purposes is reported in Column (C). Include in Column (B), as well, expenses of unrelated trade or business activities.

## Column (C)

### Management and General Expenses

In Column (C), report the expenses of general operations and management:

- Salaries/expenses of CEO and staff (except time spent on program services or fundraising)
- Investment management expenses
- Expenses of lobbying that is not directly related to an exempt purpose

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#### **Speaker 1:**

In Column (C), report expenses that are attributable to the management and general operations of the organization. For instance, report the salaries and expenses of the chief executive officer and the CEO's staff in Column (C) unless a part of their time is spent directly supervising program service or fundraising activities, in which case you should allocate those salaries and expenses under the appropriate column. Also include expenses incurred to manage investments.

## Column (C)

### Management and General Expenses

In column (C), report the costs of:

- Board of directors meetings
- Committee and staff meetings (except those specifically devoted to program services or fundraising)
- Legal services
- Accounting and auditing
- General liability insurance
- Office management and human resources

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#### **Speaker 2:**

Other expenses that should be reported in Column (C) include those associated with:

- Board of directors meetings
- Committee and staff meetings that do not directly involve a program service or fundraising activity
- General legal services
- Accounting and auditing
- Liability insurance
- Office management and human resources



## Column (D) Fundraising Expenses

In Column (D), report expenses, including allocable overhead costs, of:

- Publicizing and conducting fundraising campaigns and events, including participating in federated fundraising campaigns
- Soliciting grants from foundations or governmental units

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### **Speaker 1:**

In Column (D), enter expenses incurred in soliciting contributions, gifts, and grants. Report as fundraising expenses all expenses, including allocable overhead costs, incurred in:

Publicizing and conducting fundraising campaigns and events (including participating in federated fundraising campaigns); and soliciting grants from foundations or governmental units.

## Example

### Allocating Functional Expenses

- Salary of soup kitchen employee: \$20,000
- Duties of soup kitchen employee:
  - Preparing and serving meals to the needy: 50%
  - General bookkeeping: 25%
  - Soliciting contributions: 25%
- Line 7: Other salaries and wages ...  
(A) \$20,000 (B) \$10,000 (C) \$5,000 (D) \$5,000

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#### Speaker 2:

Let's look at an example of how to allocate an expense among Columns (B), (C), and (D). Suppose a soup kitchen, exempt under section 501(c)(3), employs someone to spend 50% of her time making and serving food, 25% of her time helping to keep the organization's books, and 25% of her time calling on potential supporters asking for contributions. The employee's annual salary is \$20,000.

Assuming the employee is not an officer, director, key employee, or disqualified person, her salary is reported on line 7, "other salaries and wages." The entire amount, \$20,000, goes in Column (A), and then is allocated among the other columns. In this case, 50%, or \$10,000, is reported in Column (B) as a program service expense for the time she spends making and serving food. 25%, or \$5,000, is reported in Column (C) as a general expense for the time she spends keeping the organization's books. And the remaining 25%, or \$5,000, is reported in Column (D) as a fundraising expense for the time she spends soliciting donations.

## Part IX, Line 5 Compensation of Current Officers, Directors, Trustees and Key Employees

On line 5, report *all* compensation the organization paid to its officers (directors, trustees and key employees), regardless of the capacity in which the work was performed

- Example: Report director Jones's wages for part-time fundraising on Line 5 (Column (D))

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### ***Speaker 1***

Now, let's cover a few points about some of the line items in Part IX. On line 5, *Compensation of Current Officers, Directors, Trustees and Key Employees*, report the total compensation paid to current officers, directors, trustees, and key employees, even if the compensation was related to services performed in some other capacity.

*For example*, Mr. Jones is a member of the organization's board of directors. Board members are not compensated for their service on the board. In addition to serving on the board, Mr. Jones is employed by the organization as a part-time fundraiser and is compensated for his fundraising duties. You should report Mr. Jones's compensation on line 5 and allocate it to Column (D), fundraising.

# Compensation

- Report compensation in accordance with the organization's usual accounting method and reporting period
- *Compensation* includes all forms of cash and non-cash payments or benefits provided in exchange for services, including:
  - Salaries and wages
  - Bonuses and fringe benefits
  - Severance payments
  - Deferred payments and retirement benefits
  - *But not* reimbursement for expenses

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## **Speaker 2:**

Be sure to report compensation based on the accounting method and reporting period used by the organization. Compensation includes all forms of income and other benefits earned or received in return for services rendered (including contributions to qualified pension, profit-sharing, and stock bonus plans under section 401(a)), but does not include non-compensatory expense reimbursements or allowances.

## Example Compensation

- Payments to Ms. Smith (a current officer)
  - Salary: \$100,000
  - Fringe benefits: \$25,000
  - Travel reimbursements: \$10,000
  - Pension plan contributions: \$7,500
- Line 5 = \$132,000 (i.e., 100,000 + \$25,000 + \$7,500)
- Line 17 (travel) = \$10,000

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### ***Speaker 2***

*For example*, Ms. Smith, a current officer of the organization, receives a salary of \$100,000. In addition, the organization paid her \$25,000 in fringe benefits and \$10,000 in travel reimbursements, and made pension plan contributions of \$7,500.

The sum of her salary, fringe benefits, and pension plan contributions, \$132,500, is reported on line 5 and the travel reimbursements, \$10,000, is reported on line 17 (the line for travel expenses).

## Part IX, Line 6

### Compensation to Disqualified Persons

- A section 501(c)(3) or (c)(4) organization must report compensation paid to a *disqualified person* on line 6 unless already reported on line 5
- Disqualified person – someone in a position to exercise substantial influence over the affairs of the organization at any time during the 5 years preceding the date of the transaction that resulted in that person being compensated

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#### Speaker 1

Let's now discuss Line 6, *Compensation to Disqualified Persons*. Section 501(c)(3) and (c)(4) organizations must report compensation and other distributions made to a disqualified person on line 6 if such compensation or distributions have not already been reported on line 5 because the person is also a current officer, director, trustee, or key employee. Similarly, a section 509(a)(3) supporting organization must report any compensation and other distributions made to a substantial contributor on line 6 that has not been reported on line 5.

A disqualified person is, generally, any person who was in a position to exercise substantial influence over the affairs of the organization at any time during a five-year period ending on the date of the transaction that resulted in compensation or benefits being paid to that person.

## Part IX, Line 6

### Compensation to Substantial Contributors

- A section 509(a)(3) supporting organization must report compensation paid to a *substantial contributor* on line 6 unless already reported on line 5
- A substantial contributor is someone who contributes more than \$5,000, and his/her contribution accounts for more than 2% of the total contributions received by the organization determined as of the end of the year in which the contribution is received

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#### Speaker 2:

A substantial contributor to a supporting organization is someone who contributes more than \$5,000, and his or her contribution accounts for more than two percent of the total contributions received by the organization determined as of the end of the year in which the organization receives the contribution.

For example, Mr. Jones contributes \$9,000 to S (a section 509(a)(3) supporting organization) in 2005. By the end of 2005, S had received (since its founding) total contributions of \$400,000. Since Mr. Jones's contribution of \$9,000 is more than 2% of \$400,000, Mr. Smith is a substantial contributor of S. If S pays compensation to Mr. Jones in 2008, it should report it on line 6, assuming Mr. Jones is *not* a current officer, director, trustee, or key employee of S.

You can find a more detailed explanation of the terms "disqualified person" and "substantial contributor" in the glossary to Form 990.

# Compensation Paid to Employees

(who are not officers, directors, trustees or key employees)

Separate employee compensation into three categories:

- Line 7: salaries and wages
- Line 8: pension plan contributions
- Line 9: other benefits (such as contributions to insurance, health, and welfare programs)

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## ***Speaker 1***

Let's move on to lines 7, 8, and 9. Unlike compensation paid to a current officer, director, trustee, or key employee, which is reported all on a single line, line 5, compensation paid to other employees is divided among three lines:

- Salaries and wages are entered on line 7
- Pension plan contributions are on line 8, and
- Other benefits (such as contributions to insurance, health, and welfare programs) are on line 9.



## Part IX, Line 10

### Payroll Taxes

- On line 10 report –
  - *Employer's* share of social security and Medicare taxes
  - Federal unemployment tax (FUTA tax)
  - State unemployment compensation tax
- But *not* –
  - Taxes withheld from employee's salaries (e.g., income tax and *employee's* share of social security and Medicare taxes)

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#### Speaker 2

On Line 10, *Payroll Taxes*, report the amount of federal, state, and local payroll taxes the organization pays in its role as an employer. This includes the employer's share of social security and Medicare taxes, the federal unemployment tax (FUTA), and state unemployment compensation taxes. On line 10, do *not* report taxes withheld from employees' salaries such as income taxes and the employee's share of social security and Medicare taxes; these are reported as compensation.

## Fundraising Expenses

### Professional Fundraising Fees (Line 11e) or Other Expenses (Line 24)?

- Line 11e: Amounts paid to an independent contractor to:
  - Conduct solicitation campaigns
  - Provide advice or services to employee fundraisers
- Line 24: Other fundraising expenses (e.g., stationery, printing, postage, mailing list rental)

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#### **Speaker 1**

Lastly, let's look at line 11e, *Professional Fundraising Fees*. This is where you report amounts paid for fundraising services, including amounts paid to independent contractors to conduct solicitation campaigns for the organization or to provide advice or consulting services supporting in-house fundraising campaigns. However, payments for printing, paper, envelopes, postage, mailing list rentals, or equipment rentals should be reported on line 24 as other expenses.

Now let's look at Part X the *Balance Sheet*.

## Part X – Balance Sheet

- Column (A) – Beginning of year
  - Enter the amounts from Column (B) of the balance sheet on the 2007 Form 990
  - If no Form 990 was filed for 2007, enter the amounts that would have been in Column (B) had Form 990 been filed
  - First tax year? Enter zeros on lines 16, 26, 33, and 34
- Column (B) – End of year
  - Final tax year? Enter zeros on lines 16, 26, 33, and 34

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### ***Speaker 2***

The balance sheet in Part X must be completed; you may not submit a substitute balance sheet. In Column (A), enter the amounts from Column (B) of the organization's 2007 Form 990 balance sheet. If the organization did not file a Form 990 in 2007, enter the amounts that would have been entered in Column (B) had one been filed. If 2008 is the organization's first year of existence, enter zeros on lines 16, 26, 33, and 34 in Column (A). If the organization is making a final return, enter zeros on lines 16, 26, 33, and 34 in Column (B).

## Part X, Line 13

### Program Related Investments

- Line 13: Book value of investments made primarily to accomplish exempt purposes rather than to produce income
- Examples of program related investments:
  - Student loans
  - Notes receivable from exempt organizations that use the funds to conduct activities that further the exempt purposes of the payee organization

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#### **Speaker 2**

Let's take a quick look at line 13, *Program Related Investments*. On this line, report the total book value of investments made primarily to accomplish exempt purposes rather than to produce income, for example, student loans or notes receivable from other exempt organizations that obtained the funds to conduct activities that further the payee organization's exempt purposes.

# This completes A Tour of the New Redesigned Form 990 – Part I

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## ***Speaker 1***

Once you complete your balance sheet, your next step should be to fill out Part III, *Statement of Program Service Accomplishments* on page 2 of the core form.

We will take up the Statement of Program Service Accomplishments in the second part of our mini course on Form 990. This completes the first part.

To continue with the course, return to Stay Exempt and the EO web-based mini courses and select the link to part 2 of *A Tour of the New Redesigned Form 990*.